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MANAGEMENT RENEWAL THROUGH ZERO-BASED BUDGETING

by

Earl Eugene Goodwin

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MANAGEMENT RENEWAL

THROUGH ZERO-BASED BUDGETING

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Bachelor of Science
Texas A. & M. University, 1954

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CHAPTER I

INTRODUCTION

Objective of Study

The primary objective of this study is to determine what degree of management renewal can be achieved when the concept of zero-based budgeting is used in the budgetary process of an organization. In addition, this thesis seeks to answer the following questions:

1. What is the meaning of management renewal?
2. What are the basic concepts and procedures of zero-based budgeting?
3. How should zero-based budgeting be applied to an organization?
4. What elements of management renewal can be accomplished through zero-based budgeting?

Need for Study

These are times when many organizations are faced with conflict, tension, uncertainty, and most of all, constant change. Evidence can be seen everywhere that management is trying to cope with some of the most difficult issues that either new or old organizations have faced since their

beginning. The challenge to most of these organizations is their ability to deal effectively with change. Powerful changes in technology, economic conditions, social standards, and educational requirements are but a few of the forces causing management problems in today's organizations.[1] There probably has been no time before when management renewal was more needed in many organizations. Accordingly, this study is needed to determine how much zero-based budgeting can contribute toward management renewal in an organization.

Background and Definition of Terms

It is a rare organization that does not need management renewal to some degree. Management renewal can be looked at as a revitalization of management effort toward changes facing the organization. Many organizations with excellent management are unable to prevent their slipping into what is called "automatic." It happens to business organizations where profits are easy to make; but, it is especially prone to happen in government organizations that have been in existence for a long period of time. When this happens, management becomes almost unconscious to the tell-tales of change and is, therefore, unable to keep the organization moving forward.

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[1]Gordon L. Lippitt, Organization Renewal, (New York: Meredith Corporation, 1969), p. vii.

The purpose of management renewal is to bring a new freshness to the management approach to change facing the organization. Management renewal seeks to improve the manner in which problems are solved at all levels of the organization. Management renewal attempts to create a climate that encourages initiative and creativity. Under such an atmosphere, all employees of the organization would be motivated positively and committed to management's goals. A more complete discussion of the meaning of management renewal is covered later in this thesis.

Zero-based budgeting is not a new concept of budgeting; but, very little has been written on the subject and its application has even been overshadowed by the introduction of the Planning, Programming and Budgeting System (PPBS) in the last few years. However, there was a recent indication of possible new and higher status for zero-based budgeting. This indication came from Arthur F. Burns, who is the chairman of the Federal Reserve Board. In a speech before the Tax Foundation, on December 2, 1969, he suggested that the government might adopt zero-based budgeting in an attempt to hold down spending. Burns added that President Nixon's recent request that the Budget Bureau give him a list of programs it thinks are obsolete or overfunded in a first step towards zero-based budgeting.[2]

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[2]Philip Greer, "Burns Stresses Need for Spending Reform," The Washington Post, December 3, 1969, p. D9.

The earliest application of zero-based budgeting was probably done by Orville Freeman, when he was the Governor of Minnesota, from 1956 through 1960.[3] Later, when Freeman was the Secretary of Agriculture, he applied the concept for the first time on the Federal level. It was used in the Department of Agriculture during fiscal year 1964, and though this is the only instance of complete use, the experience and results provide excellent data for a study of what more could be done.[4]

The primary purpose of zero-based budgeting is to discover programs that have been continued through inertia or design and no longer warrant being continued at all, or at the present level of expenditure. The application in the Department of Agriculture did not reveal significant results in this area, but on the other hand, some unexpected benefits were derived that were equally important. For many of the people involved in the process, the experience appeared to have satisfied a longing to believe that they were proceeding according to rational methods in previous budget actions. After the experience, many considered themselves much better qualified in their jobs and much more knowledgeable about their programs. It gave them new confidence.

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[3]Thomas Flinn, "Governor Freeman and the Minnesota Budget," Inter-University Case Program, No. 60, University of Alabama, 1961, p. 2.

[4]Aaron Wildavsky and Arthur Hammann, "Comprehensive Versus Incremental Budgeting in the Department of Agriculture," Administrative Science Quarterly, 10:3, December, 1965, p. 142.

The second-level people felt good about being able to educate their superiors and likewise, the superiors noted that the budget presentations were clearer than in any previous year. All levels of management seemed to gain a new momentum in the performance of their jobs. The making up of a proper budget was a real morale booster.[5] Now that the unexpected benefits of zero-based budgeting are no longer unexpected, it is believed that they can be exploited toward achieving many elements of management renewal.

Methodology

Methodology used in this study divides into three main areas. First, library research was employed to develop background material, define the basic terms of the study, and supplement some of the deductions made concerning the application of zero-based budgeting. This research included the libraries of: The George Washington University; the Bureau of the Budget; the Naval Supply Systems Command; the Civil Service Commission; and, the Department of Agriculture. The second type of methodology used was the review of files in the Office of Budget and Finance of the United States Department of Agriculture. The main value of these files was a better understanding of the operation of zero-based budgeting when it was used by the Department of Agriculture,

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[5] Ibid., p. 143.

in 1964. The third type of methodology used was the interviews with personnel who were participants in zero-based budgeting in the Department of Agriculture.

Limitation and Scope

The scope of the study will be limited to the application of zero-based budgeting to a typical government organization and the elements of management renewal that can be expected. It is not expected that zero-based budgeting will achieve all of the elements of management renewal that may be required by an organization. There are many other actions required to achieve complete management renewal, such as reorganization, training and education, and systems development. Such actions are beyond the scope of this study. In addition, the limits of this thesis will not allow for the development of detailed training programs or operating procedures for the application of zero-based budgeting. Attention will be devoted primarily to the analysis of the broad subject areas that are considered pertinent to zero-based budgeting and management renewal.

This study is organized into five basic Chapters. The first Chapter will serve as introduction. The second Chapter will discuss the meaning of management renewal, including why organizations frequently require this action

and what are the major conditions to be achieved. The third Chapter will discuss, in detail, the basic concepts of zero-based budgeting. It will also make comparisons with other forms of budgeting and attempt to project what the future holds for zero-based budgeting. The fourth Chapter will deal with the application of zero-based budgeting to an organization. It will discuss the advanced preparation required, the procedures to be used, and the benefits that can be expected. The final Chapter will draw conclusions.

CHAPTER II

MANAGEMENT RENEWAL

A reference concerning the specific term "management renewal" could not be located during the course of this study. Numerous management books and management dictionaries were consulted, but, none contained material on the specific term "management renewal." In the absence of a specific reference to serve as a starting point, the meaning of management renewal will be approached by first defining the term management, and the word renewal, and then analyze what is conveyed when both are used together.

What Management Encompasses

Like all other professional fields, management has a history that can be traced back into the early days of man. However, the history of management is unique in that it was not really recognized for what it was until this century.

It is highly probable that the management process first began in the family organization; later expanded to the tribe; and finally; evolved into the formalized political units, such as those in early Babylonia. In these organizations, a type of financial control and record keeping

was invented, which usually took the form of clay tablets with inscriptions. Later, the Egyptians provided us with one of the first examples of a dispersed, decentralized organization with little or no control, and the consequent poor end results. This system of organization is, in fact, the first recorded instance of the utilization of a decentralized form of organization to manage an empire and illustrate the inherent weaknesses of this system which eventually led to its downfall. Perhaps the Greeks, more than any other people, provide us with the most extensive documentation of management principles in their writings about the universality of management, specialization, management as an art, employee selection, delegation of authority, and motion studies. The Romans, as we have seen, made the same mistake that the Egyptians made in the organization of their empire on a decentralized basis with little or no control. But civilizations never seem to learn from others' mistakes, and during the Middle Ages, the principle of decentralization was again violated in the feudal system of management, with the same ultimate failure.[6]

Looking at the entire range of management thought during this early period of history, we can conclude that

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[6]Claude S. George, Jr., The History of Management Thought, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1968), p. 25.

management was strictly on a trial and error basis, with little or no theory and virtually no exchange of ideas and practices. Perhaps inadequate records, poor communication, and a failure to analyze the reasons for non-success lay behind this lack of profiting from the experience of others. In general, it appears that the managerial principles employed were born out of the necessity of having to accomplish certain goals, and these principles were discovered over and over again by numerous individuals, as they went about attempting to reach needed objectives. Thus, in those early times, management thought existed, but, only in a somewhat nebulous and unsophisticated state. The basic principles were not united in a scheme of management thought, nor is there evidence of any chronological building of techniques upon previously conceived ones.[7]

With a brief history of management as background, it is now appropriate to approach the modern day meaning of the term management. There is an almost unlimited source of references for the term management. It is logical to start with a rather broad definition and then proceed to a more narrow one for the purposes of this thesis. Claude S. George, Jr. has written:

> Management is at one and the same time the determiner of our economic progress, the employer of our educated, the amasser of resources, the guide for our effective

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[7] Ibid., p. 26.

> government, the strength of our national defense, and the molder of our society. It is the central core of our national, as well as personal activities, and the way we manage ourselves and our institutions reflects with alarming clarity what we and our society will become.[8]

George goes on to point out that:

> . . . despite the importance of management, it is one of the most nebulous and at the same time, most ubiquitious functions in the societies, being found in homes, churches, governments, and economic undertakings of all peoples. It is and always has been the strong right hand of all leaders. In fact, all truly great leaders were managers - managing countries, managing explorations, managing wars, managing other men's efforts . . .[9]

Peter F. Drucker is an author, consultant, and lecturer in the field of general management and is highly regarded for his modern approach to the subject. Most of the material he has produced on management narrows the description to the business operation where economic performance is the primary goal. One of his many definitions of management states that:

> . . . management, which is the organ of society specifically, charged with making resources productive, that is, with the responsibility for organized economic advance, therefore, reflects the basic spirit of the modern age. It is, in fact, indispensable - and this explains why, once begotten, it grew so fast and with so little opposition.[10]

Drucker adds that:

> Management expresses basic beliefs in the modern western society. It expresses the belief in the possibility of controlling man's livelihood through

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[8]Ibid., p. 1. [9]Ibid., p. 143.

[10]Peter F. Drucker, The Practice of Management, (New York: Harper & Brothers, 1954), p. 28.

> systematic organization of economic resources. It expresses the belief that economic change can be made into the most powerful engine for human betterment and social justice - that, as Jonathan Swift first overstated it 250 years ago, whoever makes two blades of grass grow where only one grew before, deserves better of mankind than any speculative philosopher or metaphysical system builder. Management can only justify its existence and its authority by the economic results that it produces. It has failed if it does not improve or at least maintain the wealth-producing capacity of the economic resources entrusted to it. Every act, every decision, every deliberation of management has as its first dimension an economic dimension.[11]

The definition of management, up to this point, is not yet appropriate for government activities, due to the broad scope and central theme of economic basis. We need to explore further the meaning of management as it relates to a government activity. To think of economics as the central theme of management may well overemphasize the importance that economics plays. It is true that the economic aspects of management determine many of the significant objectives that an organization will pursue. However, management is much more than just an economic operation. Management requires an overall system of techniques to handle the various administrative and technical matters that are part of the everyday life of any organization. Joseph L. Massie writes that:

> Management is defined as the process by which a cooperative group directs actions toward common goals. This process involves techniques by which

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[11] Ibid., p. 31.

> a distinguishable group of people (managers) coordinates activities of other people: managers seldom actually perform the activities themselves.[12]

Massie is stating simply that the purpose of management is to get things done through other people. As viewed by a specialist in administration and organization, this requires a system of authority. The system of authority may take various forms from the completely autocratic arrangement to a constitutional process which is characterized by concern for rational and consistent policies in dealing with the working group. The use of people and a system of authority leads to the final aspect of management which may well be the most important in this day and age. Management requires a very special relationship between people in order to obtain the objectives of an organization. Along this line, one author writes that:

> Managing is a social process. It is a process because it comprises a series of actions that lead to the accomplishment objectives. It is a social process, because these actions are principally concerned with relations between people.[13]

A great deal of research has been conducted in this area in recent years. Conclusive evidence has been gathered that shows as more and more workers receive higher

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[12]Joseph L. Massie, Essentials of Management, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1964), p. 4.

[13]William H. Newman, Charles E. Summer, and E. Kirby Warren, The Process of Management, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1967), p. 9.

education, a psychological contract between management and the workers becomes essential to development of an effective organization. Chris Argyris sums up this requirement when he writes:

> It is our hypothesis that the incongruence between the individual and the organization can provide the basis for a continued challenge which, as it is fulfilled, will tend to help man to enhance his own growth and to develop organizations that will tend to be viable and effective.[14]

Management has been considered from the following viewpoints: (1) as the grand method for handling all affairs of man; (2) as a highly involved economic operation; (3) as a technical process for getting things done; and, (4) as an intricate relationship between people. Each of these viewpoints has a part in the understanding of what management is in a government operation. The modern management of a government activity can be described as a synthesis of these four viewpoints.

The broad viewpoint, where management is seen as a grand scheme for handling all the affairs of man, serves the very useful purpose of emphasizing the almost unlimited scope and new found statue of the field of modern management. It is a viewpoint that must be fully appreciated before proceeding to the others because it is

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[14]Chris Argyris, Integrating the Individual and the Organization, (New York: John Wiley and Sons, Inc., 1964), p. 7.

necessary to comprehend this importance in order to avoid treating management as if it were something simply having little effect on the outcome of events.

The economic theme of management is paramount in the field of business; but, in government and military activities, it must play a secondary role. The economic consequences of management in military decisions are limiting factors in these matters and not the starting point or rational. As limiting factors, economic considerations do provide the basic framework from which alternate methods of achieving previously selected objectives are chosen. As Hitch and McKean have written:

> In the military, economics is concerned with allocating resources - choosing doctrines and techniques - so as to get the most out of available resources. To economize in this sense may imply spending less on some things and more on others. But always economics or economizing means trying to make the most efficient use of the resources available in all activities in any circumstances.[15]

Management, as a process for getting things done, probably has the longest history. As mentioned earlier, the necessity to get things done seems almost the sole reason that management in any form was born in the first place. Unfortunately, for thousands of years man never was able to learn from the mistakes of others. The

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[15]Charles J. Hitch and Roland N. McKean, The Economics of Defense in the Nuclear Age, (New York: Harvard University Press, 1965), p. 5.

recognition of this failure to learn from others and efforts to correct this fault is the foundation of modern management today. In recent years, an enormous effort has been made to study all management techniques and determine which produces the best results. This has led to the development of a rather rigorous framework of concepts that are used as tools to judge many management actions. However, recently these rigorous concepts have been under challenge. Joseph L. Massie reports that:

> Many chief executives and educators contend that the most important perspective of executives should be based on a liberally educated outlook on life. A liberal point of view is not merely the sum of a definite number of narrow approaches. Its emphasis is on freedom to choose from the widest range of possibilities by discovering new possibilities, and by recalling possibilities previously developed but forgotten. The liberally-oriented manager continues to expand his horizons with utmost freedom in an effort to strive toward an ultimate in life.[16]

The paradox of management is that it is based on identifiable and rigorous frameworks of concepts; but, at the same time, it continues to strive toward breaking out of any set discipline.

Management must also be considered as a special relationship between people. Management can decide on objectives, select methods to pursue the objectives, and make many other decisions; but, management can accomplish

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[16]Massie, Essentials of Management, p. 5.

none of these without the use of people. Management must be an expert in human relations. Human relations is the process of effective motivation of individuals in a given situation, in order to achieve a psychological arrangement that will yield the necessary human satisfaction and, in turn, help accomplish the goals of the organization. To achieve this, managements fundamental task must be the creation of an environment that makes the satisfaction of human needs compatible with the accomplishment of organization goals.

The full meaning of management must encompass all the viewpoints that have been discussed above. It is unlimited in scope and based on economic principles that must be assembled into a technical process for accomplishment by people who have been properly motivated.

The Definition of Renewal

Funk and Wagnalls New Standard Dictionary of the English Language states that:

> . . . renewal is to make new, or as if new again; to restore to a former or sound state; to renovate, hence to make fresh and invigorate. It means to bring again to notice and to revive and regenerate. It also means to grow again and to become restored with fresh vigor.[17]

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[17]Funk and Wagnalls, New Standard Dictionary of the English Language, (New York: Funk and Wagnalls Company, 1962), p. 2085.

In the definition of renewal, it is self-explanatory that the condition or state being renewed has previously existed in a satisfactory form. This is in agreement with the purpose for which the word will be used in this thesis. The condition of an organization that is being renewed must have previously existed in the organization or the organization would not have survived in the first place.

The principle synonym of renewal is the word reclaim, and this is in keeping with the definition that is needed for this thesis. To reclaim is:

> . . . to seek to regain a condition; to bring a wild or useless condition into subjection or cultivation. To reclaim is to subdue, tame or cause the return from the wrong way of life. Secondary synonyms for renewal are amend, correct, recover, reform or rescue . . .[18]

For the purposes of this thesis, it is appropriate to think of renewal in terms of regaining a condition of freshness, alertness, and vigor.

The Meaning of Management Renewal

It would be an oversimplification to say that management renewal is the sum of all the things that "management" and "renewal" have been described as being. It is more than the sum of those things because new meanings

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[18] Ibid., p. 2064.

are created when the two terms are joined together. Management renewal is closely associated with change. In fact, it is because of change that management renewal is required.

Gordon L. Lippitt, in his book, Organization Renewal, discusses many factors that are closely related to management renewal. He defines organization renewal as:

> . . . the process of initiating, creating, and confronting needed changes so as to make it possible for organizations to become or remain viable, to adapt to new conditions, to solve problems, to learn from experience, and to move toward greater organizational maturity.[19]

The meaning of management renewal cannot be far from this definition.

Management renewal is the restoration of management's ability to cope with change. It is implied here that this capability was once possessed by management and it is safe to say that this is true in most organizations. Most organizations must possess this ability early in development or they do not survive. An organization is able to reach stability by using this ability to meet all the changes it must confront. It is at this stage of stability that complacency is most likely to occur. Complacency is normally based on the premise that all future changes will be the same type of changes that have occurred in the past. This is almost never true as

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[19]Lippitt, Organization Renewal, p. 1.

nothing changes more than change itself. Unfortunately, most organizations do not understand this fact or they fail to fully accept all the implications that are involved.

Most government activities have long ago reached the stability stage and most of these have long ago slipped into what is called "automatic." Automatic is a condition of an organization when management assumes that no unexpected events will occur in the future. Under this condition, management believes that it has established all the necessary systems to automatically handle the operations of the organization. At this point, management can merely review the various progress reports produced by the system. Once an organization has slipped into automatic, action is then required regenerate its ability to meet and adapt to new changes. This is where management renewal is required.

As a broad definition, management renewal can be described as a complex set of actions taken by an organization to regain its capability to manage change. There are several conditions that must be achieved by an organization in order to have management renewal. These can be briefly described as:

1. Continuous self-examination within the organization. The objectives and methods being used to accomplish goals must be placed under continuous scrutiny. The organization must know itself at all times. This is

not easy to do. It requires will-power and discipline on the part of top management. Top management must show the way. Top management must be observed openly examining its own decisions, admitting to past failures, and acknowledging weaknesses that they possess themselves and must be overcome. If they are observed honestly doing these things, this method of operation will be transmitted down to the next level of management and then on down into the organization. Top management must have a firm working policy that making mistakes, within a liberal range, is a natural result of taking action. On the other hand, top management should have little patience with consistent failure to recognize and accept mistakes. These actions, by top management, will enable the organization to continuously look at their goals and methods and make bold changes to meet the needs of the future. It will indeed help the organization to know itself.

2. Positive and fluid communication and coordination must exist at all levels of the organization. Formal and informal group participation is the major element of this condition. The importance of the communication function cannot be overemphasized in achieving management renewal. It is no exaggeration to say that communications is the means by which an organized activity is unified. It is the means by which behavior is modified, change is

effected, and goals are achieved. In its broadest sense, the purpose of communications is to effect change - to influence action in the direction of the organization's welfare.[20]

Total communications is more than management's ability to effectively communicate down the official lines of the organization. It is more than keeping the channels open back up those same lines. The most difficult and most productive communication in the long run is that which takes place between and across the lines of the organization. The first step in this condition is simply getting people to talk to each other. Employees sometimes work alongside each other for years and never talk to each other. Where they are separated physically, the likelihood of communication is almost nonexistent. Groups and sub-groups must be established at all levels and across the lines of the organization. This has to be followed up with a formal program to facilitate the exchange of information.

3. Sound problem solving techniques must be in operation. This is needed to avoid crises and provide timely answers to the questions facing the organization. The importance of decision-making and problem-solving in management is generally recognized. But, most systems and

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[20]Harold Koontz and Cyril O'Donnel, Principles of Management, (New York: McGraw-Hill Book Company, 1968), pp. 590-592.

procedures that are set up to handle problem-solving functions tend to center on giving answers. And this is the wrong focus. Indeed, the most common source of mistakes in management decisions is the emphasis on finding the right answers rather than the right question. The first job in decision-making is, therefore, to find the right problem and define it. The next phase is analyzing the problem, classifying it, and finding the facts. Following this, it is necessary to develop alternate solutions and then select the best solution. Finally, and not to be under rated, is the necessity of making the decision effective.[21] The problem-solving operation of an organization must function smoothly and without a crises atmosphere if the employees are to feel that they are on a winning team.

4. The organization must have policies and practices that secure the motivation of employees so that they are committed to the goals of the enterprise. These policies and practices must also create a climate that encourages and channels creativity by all people throughout the organization. The concept and practices in many organizations are such as to limit the opportunities for individual growth and, in turn, limit the growth of the organization. However, recent research has opened up new

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[21]Drucker, The Practice of Management, p. 154.

and highly pertinent insights about human behavior in organizations. Douglas McGregor, through his research and writings, has dealt a devastating blow to the traditional view as that one where the employee is considered as having an inherent dislike for work and, therefore, must be coerced, controlled and threatened with punishment in order to get him to produce. McGregor labeled this view as his Theory X. Through his research and analytical writings, he has shown that Theory X management causes resentment on the part of the employees and over the long time frame results in considerably less productivity. McGregor also developed his Theory Y, which is obviously the opposite of his Theory X. Theory Y management assumes that man does not have an inherent dislike for work and, under controllable conditions, work can be made a source of satisfaction to the employee. The assumptions of Theory Y point up the fact that the limits on human collaboration, in the organizational setting, are not limits of human nature, but of management's ingenuity in discovering how to realize the potential represented by its human resources.[22] Theory Y possesses a great challenge for management; but, it is one that must be met and dealt with effectively if an organization is to

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[22]Douglas McGregor, The Human Side of Enterprise, (New York: McGraw-Hill Book Company, Inc., 1960), pp. 33-57.

achieve its full potential.

The above conditions are not all encompassing and are certainly not complete in terms of a total management system. However, they do provide a reasonable set of criteria for measuring management renewal and will be used in this thesis to determine the extent to which zero-based budgeting can achieve these conditions in an organization. It is noted that they all involve change. Change occurs within an organization - or it should, if progress is to be made - and, from time to time, goals and practices must vary. Change is why management renewal is required in many organizations. Therefore, in more specific words, management renewal is concerned with the manner in which an organization: first, confronts situations and searches for solutions; and, second, copes with the facts and circumstances in implementing solutions.

CHAPTER III

DESCRIPTION AND PURPOSE OF ZERO-BASED BUDGETING

Before defining a specific type of budgeting, like zero-based budgeting, it is only logical first to describe the overall term budgeting. There is a never ending list of references that provide excellent definitions of budgeting. A definition of budgeting can be narrow in scope or it can be extremely broad in all that it encompasses. The definition in this paper will be limited to that budgeting that is accomplished in the Federal government of the United States and this will help reduce the ground to be covered. Jesse Burkhead uses a concise definition when he states that:

> Government budgeting is one of the major processes by which the use of public resources is planned and controlled.[23]

He goes on to expand this when he states that the study of government budgeting is a study in applied economics - in the allocation of public resources.[24] Of course

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[23]Jesse Burkhead, Government Budgeting, (New York: John Wiley and Sons, Inc., 1956), p. vii.

[24]Ibid.

government budgeting can mean much more than what Burkhead has stated above. It can be described as a tool for achieving political objectives and this use has been extensively written about by Aaron Wildavsky. Wildavsky states that:

> . . . budgeting is concerned with the translation of financial resources into human purposes . . . therefore, budgeting may be characterized as a series of goals with price tags attached.[25]

As mentioned above, there are many more definitions of budgeting that move into other areas such as planning and management. Describing budgeting in this broader manner, Melvin Anshen writes:

> It is related to the complete administrative range from analysis through planning to management and control. In its end product, the budget, it summarizes: (1) the problems to which analysis has been applied; (2) the analytic concepts and techniques brought to bear on those problems; (3) the information relevant to their solution; (4) the proposed (ultimately, the determined) decisions; and, (5) the administrative structure through which performance and the approved budget will be executed, controlled, and appraised.[26]

There are other references available that provide excellent definitions of government budgeting; but, in order to move on to the meaning of zero-based budgeting, the above

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[25]Aaron Wildavsky, The Politics of the Budget Process, (Boston: Little, Brown and Company, 1964), pp. 1-2.

[26]Melvin Anshen, "The Federal Budget as an Instrument for Management and Analysis," Program Budgeting, David Novick, ed., (Cambridge, Massachesetts: Harvard University Press, 1965), p. 3.

explanations will suffice for this paper.

Zero-based budgeting is probably best described by Aaron Wildavsky and Arthur Hammann in their article, "Comprehensive Versus Incremental Budgeting in the Department of Agriculture," written in the Administrative Science Quarterly, published in December, 1965. Both authors refer extensively to other writers on the subject in arriving at an overall definition. Their broad definition describes zero-based budgeting as:

> . . . a budgetary process in which coordination would be made the explicit concern of a central hierarchy, which would consider a wide range of alternative expenditures and investigate, rather fully, the consequences of each and the probability of their occurring. No item would be automatically included, and each would be considered anew every year in the light of its relative priority compared to other items. Instead of proceeding from a historical base, there would be no base at all; therefore, this comprehensive budget is called a zero-based budget.[27]

The Department of Agriculture was the first agency to use a zero-based budget and the following description was used in their "Instructions for 1964 Agency Estimates:"

> A new concept has been adopted for the 1964 agency estimates; namely, that of zero-based budgeting. This means that all programs will be reviewed from the ground up and not merely in terms of changes proposed for the budget year . . . . The total work program of each agency must be subjected to an extensive review and

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[27]Aaron Wildavsky and Arthur Hammann, "Comprehensive Versus Incremental Budgeting in the Department of Agriculture," Administrative Science Quarterly, 10:3, (December, 1965), p. 142.

> evaluation . . . . Consideration must be given to the basic need for the work contemplated; the level at which the work should be carried out; the benefits to be received; and, the costs to be incurred . . . . The fact that certain activities have been carried out for a number of years will not, per se, adequately justify their continuation. Nor will the fact that programs are prescribed by statutory law necessarily be a controlling consideration. Program goals based on statutes enacted to meet problems or needs that are today of lesser priority must be re-evaluated in terms of present conditions. It is implicit in the zero-based budget approach that the need for programs and their recommended magnitude in the fiscal year, 1964, be clearly and specifically demonstrated . . . . The justification should be prepared on the assumption that all information needed for making budget decisions should be included.[28]

How a budget process is to be applied in making estimates is helpful in a further understanding of the concept and it moves us closer to a discussion of the objectives of the zero-based procedure. In applying the zero-based process, it is necessary to make three types of calculations which are as follows:

1. justification of the need for agency activities and programs without reference to congressional mandate of past practice;
2. justification of the requested level of expenditure (fund obligations) based on the needs; and,
3. justification of the costs of the needed programs from the ground up.[29]

The objectives of a zero-based budget process are paramount and here is where we must not lose perspective. It is often times easy to concentrate so heavily on

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[28] Ibid., pp. 143-144. [29] Ibid., p. 144.

procedures that the objectives become secondary in importance. The major objectives of the zero-based budget concept are: (1) to examine all programs at the same time and from the ground up; (2) to discover programs continuing through inertia of design that did not warrant being continued at all of at their present level of expenditure; and, (3) to develop detailed information about all programs in one place and one time for departmental review. The zero-based process also has several secondary objectives which also should be kept in mind:

1. to avoid the increase-decrease analysis of traditional incremental approach where the vast majority of the budget is taken without examination;
2. to make the budget process more comprehensive in nature and in practice;
3. to consider the budget as a whole, each item competing for funds with all other items;
4. to inject rational decision-making into the budget process;
5. to remove political influence from the budget process;
6. to remove all past assumptions and commitments of needs and develop budget based on current conditions; and,
7. to use work measurement units, where possible, to justify levels of expenditures.[30]

The above, of course, does not cover every part and purpose of zero-based budgeting as it can vary from one organization to another.

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[30] Ibid., p. 150.

Comparison of Zero-Based Budgeting With Other Budgeting Concepts

Zero-based budgeting is most frequently compared with the traditional or incremental form of budgeting, probably because they are at opposite poles of budget thinking. Because they are at opposite poles, we find that these two concepts have very little in common. The incremental form of budgeting is still the most widely used method despite the heavy criticism that has been made of it over the years. The incremental concept concentrates on a relatively small portion of the whole budget, while zero-based budgeting attempts to look at all programs and the budget as one whole product. The incremental approach is influenced by political considerations of what is feasible to change from one year to another. The zero-based approach seeks to consider all programs each year. Aaron Wildavsky points out that the incremental procedure is based on historical knowledge because normally the same people are involved year after year. He also states that it is fragmented in that different people consider different parts of the budget.[31] In concept, the zero-based approach has none of these characteristics or at least it consciously seeks to avoid these features. Under

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[31]Wildavsky, Politics of the Budget Process, p. 59.

the incremental process, it is very possible for many unnecessary programs to continue year after year where no changes occur in the level of expenditure and consequently no review is conducted. One of the major objectives of zero-based budgeting is to discover programs of this type and discontinue the expenditure or adjust the level to meet current requirements. Comprehensiveness is the element that separates incremental and zero-based budgeting to the widest point. Incremental budgeting, by its very nature, results in only a few programs receiving any sort of review while zero-based budgeting goes to the other extreme and reviews each and every program.[32]

In the winter, 1952, issue of the Public Administrative Review, Verne B. Lewis, in his article, "Toward a Theory of Budgeting," proposed an alternate budget system for use in the government. The primary purpose of his proposed system was to stimulate further consideration of the economic aspects of budgeting; but, it also had several other interesting features that can be compared to zero-based budgeting. Under the alternate budget system, each estimate would be accompanied by skeleton plans of several (usually three) levels of expenditure. Nothing of this kind was contemplated in the zero-based procedure.

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[32]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 144.

While the zero-based method provided for comparing one item against another item, the consideration and computation of alternate levels of spending was not stressed as a major objective. Lewis believes that the alternate budget system would enhance the assistance rendered by subordinates. He thinks the subordinate official can perform an indispensable service by comparing the relative effectiveness of each activity in achieving the goals of his agency and by indicating how he thinks any specific amount of money can best be distributed among the programs of his agency.[33] The zero-based procedure also enhances the assistance rendered by subordinates. The experience in the Department of Agriculture showed that subordinates became more knowledgeable about their programs and made much clearer presentations than in past years.[34] The alternate budget system would permit the use of work load and unit cost data to the extent feasible in each case. Under each alternate total figure, the number of units of work that could be performed, the quality standards, and unit costs could be shown. Thus, the benefits to be derived from work load measurement could be fully utilized under the

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[33]Verne B. Lewis, "Toward a Theory of Budgeting," Public Administrative Review, 12:1, (Winter, 1952), p. 49.

[34]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 154.

alternative budget procedure.[35] The instructions issued by the Department of Agriculture did not specifically call for the use of work load figures; but, in the implementation of the concept, they were found to be a powerful tool in justifying the programs from the ground up and the levels of expenditure. One high ranking official was explicit in stating that in his agency:

> . . . the zero-based approach made no difference; because to meet rapidly changing conditions, we are always preparing our budget zero-based style. Economic assumptions lead to size of expected program (required by statue), which leads to cost on basis of previous staffing and material needs. We do not know what the estimate will be until it pops out of the calculating machine.[36]

Primarily as a result of the Hoover Commission Report, of 1949, a system of budgeting called performance budgeting came into operation in the Federal government. The commission recommended that:

> The whole budgeting concept of the Federal government should be refashioned by the adoption of a budget based upon functions, activities, and projects - this we designate a "performance budget." The main intent of performance budgeting was to improve public comprehension of the budget in terms of the policy objectives it is designed to further.[37]

Jesse Burkhead stated:

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[35]Lewis, "Toward a Theory," p. 50.

[36]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," pp. 146-147.

[37]Arthur Smithies, The Budgetary Process in the United States, (New York: McGraw-Hill Book Co., 1955), pp. 83-84.

> Performance budgeting can be most appropriately associated with a budget classification that emphasizes the things which government does, rather than the things which government buys. Performance budgeting shifts the emphasis from the means of accomplishment to the accomplishment itself.[38]

Zero-based budgeting and performance budgeting have several aspects in common. Each system depends heavily on work measurement units. Performance budgeting concentrates on a classification of the objects or things that government buys. Zero-based budgeting utilizes the classification of objects converted into work measurement units to justify a program from the ground up and the necessary level of expenditures from year to year. Both systems concentrate heavily on the management aspects of budgeting and seek to emphasize the work efficiency of operating units. Performance budgeting usually results in an incremental approach to many of the expenditures and as a consequence, is not as comprehensive as zero-based budgeting. Performance budgeting involves very little of the "why" expenditures are being made while zero-based budgeting makes a concerted effort in this direction. Neither system emphasizes the role of planning and the formulation of detailed long-range plans. It is program budgeting, next discussed, that adds these new dimensions

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[38]Burkhead, Government Budgeting, p. 133.

to the Federal budget process.

In the summer of 1965, President Johnson announced that a new and "revolutionary" budget system was being installed throughout the Federal government. This system, called program budgeting, demands that: executive departments and agencies define clearly the major objectives (or programs) which they choose to pursue; that they apply systematic analysis to the alternate ways in which these objectives are being - or may be - sought; and, that they plan their spending in long-range as well as one-year-ahead plans.[39] The program budget system had been introduced earlier in the Department of Defense and marked a distinct shift from the performance budget which emphasized objects to program packages which were broad representations of national goals. Planning, Programming, Budgeting System (PPBS) is based on the introduction of three major concepts into the Federal budget process:

> 1. the development in each government agency of an analytical capability to examine, in depth, both agency objectives and the various programs to meet these objectives;
> 2. the formation of a five-year planning and programming process coupled with a sophisticated management information system; and,
> 3. the last, and perhaps most fundamental concept to be introduced, is the creation of an improved budgeting mechanism which can take broad program

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[39]Virginia Held, "PPBS Comes to Washington," The Public Interest, No. 4, (Summer, 1966), p. 102.

> decisions, translate them into more refined decisions in a budgetary context, and present the results for Presidential and congressional action.[40]

Based on this brief description of PPBS, some analytical comparisons with zero-based budgeting will now be made. On the whole, PPBS has not been altogether successful (this could be the subject of at least a thesis); but, it might be helpful to compare the basic objectives of the two systems. Under zero-based budgeting, one of the major objectives is to consider all programs at the same time and from the ground up. It does not appear that PPBS has added anything new in this area and possibly took much of their concept from the zero-based approach. Zero-based budgeting seeks to discover unnecessary programs that can be eliminated. PPBS concentrates more heavily on the introduction of new programs and because of this, probably will not be as effective in eliminating unnecessary items. Zero-based budgeting strives to develop detailed information on all programs in one place at one time for high level review. PPBS has a very similar objective: it places more emphasis on long-range planning through their five year projection concept; whereas, zero-based budgeting has not moved that far into future planning. PPBS has

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[40]Murray L. Weidenbaum, "Problem Budgeting - Applying Economic Analysis to Government Expenditure Decisions," Business and Government Review, 7:4, (July-August, 1966), p. 26.

attempted to employ considerable quantitative analysis while zero-based budgeting has not, except in areas where work measurement is highly developed. Finally, it can be said that both systems place heavy stress on the deliberate consideration of alternate programs to achieve established objectives.

The Future for Zero-Based Budgeting

Zero-based budgeting has made a significant impact on the process of budgeting. This impact has primarily been seen in the field of improving the conceptual approach to the overall budget process. The fact that zero-based budgeting has not been recognized or adopted in name is not really important. What is important is that zero-based budgeting has shifted budget thinking and theory from the traditional incremental approach to a much more comprehensive system of devoloping the budget. The PPBS currently used embodies almost all of the fundamental concepts of zero-based budgeting.

There is recent evidence that increased utilization of zero-based budgeting may soon be forthcoming. Arthur F. Burns, who has served in the past as the President's counselor for economic affairs and is currently the chairman of the Federal Reserve Board, has voiced concern about the need for expenditure reform.

In the December 3, 1969 issue, of The Washington Post, he is quoted as saying:

> I am inclined to think that the need for expenditure reform may be even greater than the need for tax reform.[41]

Burns suggested that the government might adopt the so called "zero-based budgeting" in an attempt to hold down spending. Normally, officials in charge of a program have to justify only the increases they ask for above the previous year's appropriation. In other words, what they are already spending is usually accepted as necessary without examination.[42] He added that President Nixon has asked the Budget Bureau for a list of programs that it thinks are obsolete or overfunded and this could be the first step towards zero-based budgeting.[43]

In spite of the inpact of zero-based thinking and the introduction of PPBS, in 1965, drastic changes in the budget are still not evident. One may ask, why? We seem to see basically the same budget year after year, except that it gets larger and never smaller. Again one may ask, why? To understand why, we must look at the congressional role in the budget process. Essentially the same congressmen are involved in the budget process year in and year out. To a very great extent, the budget

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[41]Greer, "Burns Stresses Need," p. D9.

[42]Ibid. [43]Ibid.

already reflects the interest of these congressmen. New programs come into existence only after a prolonged effort on the part of proponents of a particular program to obtain support from many different interest. For example, a generation of bitter debate proceeded the passage of substantial program of Federal aid to elementary and secondary education, in 1965. It then passed only because it finally attracted the support of three different groups of interest which were: (1) those whose concern was for the poor; (2) those who saw the act as a first step toward wider Federal aid to education; and, (3) those who wanted to set a precedence for Federal aid to church schools. Such delicate alliances stand behind many laws. Hence, once a fight has been won to obtain certain legislation, it is not surprising that there is great reluctance to cancel or change a program. Attempts to reduce or cancel a program bring loud cries of anguish. In 1967, the President called for a reduction in impacted area aid to school districts serving large numbers of children of Federal employees. Not a single Congressman could be found to introduce the bill for the change. This was true, in spite of many Congressmen privately admitting to the "rationality" of the change.[44]

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[44]William Gorham, "Sharpening the Knife that cuts the Public Pie," Public Administrative Review, No. 3, Vol. XXVIII, (May-June, 1968), p. 131.

If there is so little room for change, it is only natural to ask, why strive for budget reform through such concepts as zero-based budgeting? To get at the basic reason, we must first take the long-range view point and not expect quick and noticeable results. We must remember that many improvements can be made even if the traditional congressional processes are not greatly changed or replaced. An improved budget process can provide a significant public service in the following areas:

1. focusing the attention of the political leaders on the choices before them;
2. clarifying the implications of alternate courses of action;
3. improving the quality of public debate among those with diverse views; and,
4. further ventilating budget formulation and legislative development based on a long term plan.[45]

Zero-based budgeting can contribute to achieving improvements in the above areas. It can also continue to play a significant role in accomplishing further budget reform. Zero-based budgeting contains the basic concept of comprehensiveness that should go a long way toward replacing the traditional incremental approach to budgeting.

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[45]Ibid., p. 133.

CHAPTER IV

THE APPLICATION OF ZERO-BASED BUDGETING

Nothing is more important to the successful application of zero-based budgeting than the preparation that proceeds it. Zero-based budgeting is a relatively radical approach to budgeting and few, if any, of the personnel in an organization can be expected to have prior knowledge of the concept or procedures. However, the problem of preparation normally goes much deeper. This is because the introduction of zero-based budgeting into an organization is in fact the introduction of change of a significant magnitude, and change of any nature requires very special handling if it is to be successful.

The next question is what type of program should be employed to prepare an organization for major change of any nature, an acceptance of the need for the budgeting process in general, and acceptance of the rational underlying the concept of zero-based budgeting. The limits of this thesis will not allow for the development of a detailed budget procedures training program.

Also, time and space will not allow for discussion of the schedule of length of such programs as these will vary considerably between organizations. Therefore, attention will be devoted primarily to those broad subject areas that are considered to be essential for inclusion in the program. These subject areas will be discussed in three categories: (1) preparations for major change; (2) actions essential to prepare an organization for any form of budgeting; and, (3) actions required to prepare an organization for zero-based budgeting in particular.

Preparations for Major Change of any Nature

There are several predictable reactions when personnel are being presented with the concept of zero-based budgeting. Foremost will be a reaction of outright resistance due to the drastic change from previous budgeting practices. A great part of this reaction is the normal result of facing change of any type and there are several actions that should be taken in advance to reduce the resistance.

As we examine the needs of an organization to cope with change, it is evident that there are two basic categories of change. One type is unplanned change,

which will happen to and in all organizations, and the second category of change is planned change, the type of change that applies when we apply zero-based budgeting in an attempt to achieve management renewal. Unplanned change is obviously such events as a tornado that blows down a warehouse or a power failure - these are situations where the organization has no choice and must react. Planned change is the conscious, deliberate, and collaborative effort to improve the operations of a system. The manager engaged in planned change has some objective and he has a well-structured scheme to achieving this end. As we have stated, the application of zero-based budgeting is classified as planned change, and, therefore, actions can be taken to prepare for this type of change.[46]

Two decades of research and experience, by social scientists, have provided some guidelines as to why people resist change. There is now solid evidence that people do not resist change itself; rather, they balk at the methods organizational leaders use to put changes into effect. No longer can managers shrug their shoulders and say, "You cannot change people." Research shows that we can change people. In fact, people like

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[46]Lippitt, Organization Renewal, p. 144.

change. The word and concept of "change" is feared because it upsets a way of doing things and threatens security. This feeling is balanced, however, by a desire for new experiences and the benefits that may come as a result of change. Some of the more typical reasons for resistance to change have been identified in research:

1. When the persons affected by the change are not involved in the planning. It is human nature to support what you help create. A number of studies indicate when people are "told," they will resent the pressure. When they have a "say" in the planning, acceptance is more likely.
2. When the purpose of the change is not made clear. Mystery and ambiguity cause suspense and anxiety. Fear of change can be as disrupting as change itself, because it produces identical worries and unrest.
3. When there is poor communication regarding the change. Even though it will affect only one or two in a work group of ten persons, all of them need to know about the change in order to feel secure and maintain group cooperation. When people are not informed or kept up-to-date, they will fill the void with rumor. People expect, need, and want to be informed about changes so that they can react and adapt to them.
4. When there is fear of failure. Today people are predominately concerned with whether they have the ability to master new skills. Fear of failure is especially strong when people are threatened with punishment such as a demotion, loss of status, lower pay, or the displeasure of the boss. They should be reassured that they will be given sufficient time and training to adjust to new procedures or assignments.
5. When excessive work pressure is involved. Often such pressure results when changes are not planned far enough in advance. When people are busy, under stress, and feeling pressured, the advocated change may well be the straw that breaks the camel's back.

> 6. When there is satisfaction with the status quo. When an individual, group, or organization is satisfied with the present state of affairs, it is more likely to resist change. Research has shown that individuals or organizations satisfied with their present performance are the least likely to endorse steps leading to change.[47]

The above list of reasons for resisting change is certainly not complete and will vary between organizations. The most obvious way to determine the reasons that may exist in a particular organization is for management to be completely open about the forthcoming change and ask questions as to the probable effect. Full answers, however, will seldom be wholly satisfactory and further analysis and comparison to previous actions and reactions will be necessary to ascertain the exact reasons for resistance to change. If the exact reasons for resistance to zero-based budgeting can be identified, then actions can be tailored and taken in advance to reduce or eliminate the resistance. This should be done to the maximum extent possible; however, it is very unlikely that all forms of resistance can be isolated in advance. In view of this, a broad band of actions should be used with the tailored actions in order to achieve maximum reduction of resistance.

Sayles and Strauss, in their book, Human Behavior in Organizations, have developed a series of

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[47] Ibid., pp. 146-148.

actions that can assist in reducing resistance. It is apparent that the change brought about by zero-based budgeting will cause changes at various levels of the organization. This must be remembered when initiating the actions developed by Sayles and Strauss. The actions developed by Sayles and Strauss are discussed as follows:

1. Two way Communication - resistance to change that springs from fear of the unknown can be reduced considerably by providing clear and complete information about the change. This information should explain not only what is to happen, but, also why. And it should be sent to the whole organization; to those both directly and indirectly involved. When major change is being introduced, management, supervisors, and subordinates should sit down and discuss the change in a way that will bring doubts and questions out into the open where they can examine and answer them. Even though management's ideas may work in theory, employees may have the know-how to make them work in practice. Sometimes, what management may feel is employee resistance to change is really management resistance to listening to employee suggestions.
2. Group Decision-Making - most people have a desire to participate in decisions that affect them directly. Group decision-making involves subordinates actively in the process of introducing change and enhances their sense of control over what is happening. It can achieve the following:
    a. Unfreezing attitudes. People often resist change because they hold certain fixed attitudes to which they adhere in spite of all evidence to the contrary. Group participation helps them unfreeze these ideas so they can be re-examined.
    b. Establishing new group standards. When an individual member of a group decided to accept a change, he many times fears that his fellow workers will criticize him for going along with management. But when the entire group is involved, the very opposite is likely to happen. The man who refuses to accept the change is pressured into accepting the group decision. In effect, group decision-making

can lead to the establishment of new group standards.

c. Commitment. Group decision-making tends to commit each member of the group to carry out the decision made by the group. Even if a member has reservations about the decision made by the group, he will be under strong pressure to implement the decision.

Though group decision-making may serve as a useful tool in reducing resistance to change, it is by no means a cure-all for management's problem in introducing change. It works effectively in areas where management has become relatively indifferent to what the group decides: for instance, management may not care how the work is divided up so long as the job is done. It is most effective where management and employees have overlapping, but not conflicting interest. This can be the case in the application of zero-based budgeting in an organization, because it can be shown that all concerned will benefit.

3. Making Changes Tentative - When the individuals concerned are permitted to participate in making the final decision on whether or not to accept a change, it is sometimes useful to ask the group to go along with the change on a tentative, trial basis at first. This could be particularly applicable in the case of zero-based budgeting where even management is only interested in a one year program until results indicate the worth of the new process. Making changes tentative has two advantages:

a. It enables all concerned to test their own reactions to the new situation, and provides them with more facts on which to base a final decision.

b. Like group decision-making, it helps to "unfreeze" attitudes and encourages objective thinking about the change.

c. A change introduced on a trial basis is less threatening and generates less resistance than permanent change.

Caution should be used when making changes tentative is used to reduce resistance to change. Obviously, where the individuals do not participate in making the final decision, the use of this action would be unwise. It may prolong the period of uncertainty and tension and the length of time it takes to make a final decision. And there is always the chance that the employees will, in effect, "participate" in the

final decision - by resisting it or sabotaging it.[48]

In addition to the actions discussed above, there are two others that warrant mention. Only essential changes should be made. This may seem obvious, but there is ample evidence to indicate that this principle is frequently violated, especially where major changes like zero-based budgeting are introduced. A major change can often set off many other changes which may or may not be necessary. Effort should be made to eliminate the unnecessary changes. Most employees can tolerate only so much change. When they are confronted with many trivial or unnecessary changes, their reaction will most likely be irritation and resentment. Even more important, the introduction of many small unnecessary changes will certainly result in less reception and probably resistance to major changes.[49]

Group norms and habits should always be taken into account when introducing change. In the case of zero-based budgeting, the introduction should avoid the disruption of any congenial and productive work groups. In most cases, the new process should be able to take advantage of such groups. At the same time, the introduction of change should not require incompatible employees

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[48]Leonard R. Sayles and George Strauss, Human Behavior in Organizations, (Englewood Cliffs, New Jersey: Prentice Hall, Inc., 1966), pp. 314-324.

[49]Lippitt, Organization Renewal, p. 151.

to work together. Each of these would violate the working habits of the employees. Similar actions that would upset long standing group norms should be avoided to the maximum extent possible.[50]

In summary, the first step in reducing the resistance to change is to bring the real problems out in the open by establishing genuine two-way communication. Management has the job of not only generating new ideas, but also the responsibility of getting them accepted. When management is seeking to make a change, they would be wise to listen carefully to questions, objections, and suggestions for modifications. Many objections and modifications may well be useful and their acceptance will improve the over-all quality of the proposed changes.

Preparations for any Form of Budgeting

In most organizations, very few personnel can be expected to understand the basic purpose for any form of budgeting, and what is still worse, a few people in almost every organization will already harbor deep resentments about any budgeting process. Accordingly, a carefully planned program of advanced preparation is required.

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[50] Ibid., p. 150.

Before proceeding into the subject areas needed to prepare an organization for the budgeting process in general, it is appropriate to briefly cover the basic characteristics of a budget system. Various lists of basic characteristics have been developed by numerous writers, and any one of several excellent lists would be appropriate. Fortunately, the various lists do not vary greatly and there is no professional controversy in this area. Therefore, to provide a good background and setting, before proceeding, the basic characteristics of a budget system, as developed by Clarence C. Benedict, are presented as follows:

1. It is a formal, comprehensive and totally integrated system that provides for the planning and control of every significant facet of operations to a common objective for periods of one to five years.
2. It is based on an organization formally and clearly defined into logical, homogenious, measurable units of responsibility.
3. All levels of management participate and are responsible for planning and controlling their respective part of operations.
4. It is a flexible system that adjusts for changes in volume and other specified conditions.
5. It provides for planning by mission or program, responsibility and element.
6. It includes a comprehensive integrated information and reporting system that provides management at every level with timely, simple analysis by program, responsibility, cause and element, in that order.[51]

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[51] Clarence C. Benedict, "Expanding the Understanding and Use of Budgets," Budgeting, Vol 16, No. 1, (July-August, 1967), pp. 4-5.

The most difficult problems that are normally encountered in preparing an organization for any budgeting process are human in nature. The operational procedures of budgeting are not relatively complex and it can be assumed that the personnel, in most organizations, are competent to grasp the procedural training that will be required. However, in the area of human behavior, special attention and effort will be necessary. This is not hard to understand and perhaps inevitable, when one keeps the following points about budgeting in mind:

1. Budgets are, first of all, evaluation instruments. Because they tend to set goals against which to measure people, they are naturally complained about.
2. Budgets are one of the few evaluation processes that are always in writing and, therefore, concrete. Thus, some of the managers tend to use budgets as "whipping posts" in order to release their feelings about many other (often unrelated) problems.
3. Budgets are thought of as pressure devices. As such, they produce the same kind of unfavorable reactions as do other kinds of pressure, regardless of origin.[52]

With the above points about the human nature of budgeting in mind, the human behavior problems likely to be encountered, and how to handle each one, can be explored. Along this line, it must be remembered that, for the most part, budgets are primarily accounting

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[52]Chris Argyris, "Human Problems with Budgets," Harvard Business Review, Vol. XXXI, No. 1, (January-February, 1953), p. 98.

techniques designed to control costs through people. As such, their impact is felt by everyone in the organization. And although their impact is felt by everyone in the organization, there is ample evidence that top and middle management must be the first examined to ensure that human behavior problems in this area have been resolved.

The subject areas needed to prepare an organization for the budgeting process in general, are slanted to a great extent toward top and middle management. As is true in any major program, that is to be undertaken by an organization, the first question that must be answered is: "Is management really sold on the budget?" This question cannot, of course, be answered "yes" or "no." The question is posed in order to provoke some thought on how effectively the current budgeting process is being utilized in the organization. Even within a given organizational environment, it is not unusual to find a wide disparity among the individual members of management on the degree to which each is "sold" on the budget. Too often, budget people have a tendency to delude themselves into thinking that management is more sold than is actually the case. It is much better if budget people maintain a responsive attitude toward their management and they will, in many cases, find indicators of the lack

of acceptance of their product. There are several basic objections that middle managers typically have, in respect to a budgeting system. It is important that each of these objections be overcome before proceeding to the preparation of zero-based budgeting.[53]

In too many organizations today, it is still felt - and practiced - that the formulation of the budget is the sole prerogative of top management. Equally bad is where the budgets are developed substantially by the accounting department with any real participation by other parts of the organization. In these situations, the budgets are simply accountant's forecasts rather than operating plans. In both of these cases, the budgetary planning is restricted to a single group and there is failure to involve other parts and levels of management in the organization. There are at least two weaknesses to this type of budgeting:

1. It is much easier to hold a supervisor or manager accountable for his performance if he personally plays a part in establishing the budget.
2. Top management, or accounting personnel, may be unaware of all the problems in operating departments, and may overlook important factors which will have an effect on the budget.[54]

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[53]George F. Bowler and Thomas L. Gleason, "Is Management Really Sold on the Budget?," Budgeting, Vol. XIV, No. 5, (March, 1966), p. 1.

[54]W. R. Hindman, "Responsibility Budgeting," Budgeting, Vol. XIII, No. 5, (May, 1965), p. 13.

Under the preferred approach, supervisors are informed of plans and ask to estimate their requirements for personnel, supplies, and any services which will be necessary to meet the schedule. These estimates should be reviewed and adjusted as necessary; however, acceptance of the revisions should be obtained from the supervisors.[55]

To get the best out of the more highly educated employee groups of today, they must be allowed to participate to a greater extent in formulating budgets. Management often takes the autocratic approach that the lower ranking employees have no right to participate in the formulation of the organization's objectives. Although many managers fully comprehend the modern theory of employee participation, they do not practice what they preach. This is revealed somewhat vividly in a survey of small, medium and large industries in a typical medium-sized city conducted by Raymond L. Meyer. He found that employees were not consulted in budget preparations sixty-four per cent of the time. When budget figures were changed, employees were advised only twenty per cent of the time.[56]

One of the best tools for obtaining employee participation, and consequently their cooperation and

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[55]Ibid., p. 14.

[56]Raymond L. Meyer, "Cooperation and Coordination Generated by Budgets," Budgeting, Vol. 15, No. 3, (November-December, 1966), p. 17.

coordination, is the master budget. The person chosen to handle the overall budgetary process, in many cases, is the accountant. Whoever is chosen to be responsible for the budget should have some training in human relations and, perhaps, in conference leadership as well. If this aspect of budget preparation is not handled well, it may well foster rebellion instead of cooperation and coordination. Chris Argyris sums up the problems in human relations in budget preparation, in an article in the Harvard Business Review, from which are quoted some of the more pertinent points:

> . . . because of the effect of budgets on people, they tend to generate forces which in the long run decrease efficiency . . . . A more fruitful and lasting objective would be for the executive to help the group members define an objective upon which they could all agree . . . . Of course, employees cannot participate in all phases of the budget. But, the ways in which these goals are to be accomplished can be decided upon cooperatively by the interested employees.[57]

In summary of what has just been said about participation in budget preparation, it must be regarded as crucial in the acceptance of any budget process. A budget process simply cannot succeed unless it is accepted by all concerned, and they are not going to accept something fully unless they are a genuine part of the process. Finally, participation has to be in the real sense of the

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[57]Argyris, "Human Problems with Budgets," pp. 100-101.

word. Any dilution of the real thing will sooner or later be recognized, and people will not like it. A special effort is required to ensure that group discussions are free and open and that employees are actually taking part in the decision process.

Budgeting requires planning and, in most cases, long range planning up to five years. A great many middle managers, whether they admit it or not, oppose the budgeting process because it requires them to do extensive planning. They feel that they are expected to have a crystal ball. They say that they can not come up with all conceivable activities that are going to take place in their operations. When asked to make long range plans, many argue that it is a waste of time. They feel frustrated from their previous planning efforts when everyone up the line second guesses them on exactly what the plans should be. Even if all this were true, to some extent, middle managers must be made aware that planning and control is inherent and fundamental to every decision and action taken by anyone. And further, planning and control, to be fully effective, must be formally developed and applied as budgeting.[58] Further, middle management must realize that the budget is a joint product

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[58]Benedict, "Expanding the Understanding and Use of Budgets," p. 10.

of the combined thinking of responsible employees from all parts of the organization. Thus, the budget process requires, and to an extent actually forces, a coordination of all planning throughout the organization.[59]

In some organizations, middle management have complaints that the budgeting process has inherent elements that are simply not fair in treatment to all concerned. They point out that many costs assigned to them, under their budget, are beyond their control and, therefore, they should not be held responsible in these areas. This can be overcome, to a great extent, by segregating costs by degree of controllability and then when variances occur, they can be pinpointed as to responsibility. Some managers feel the budget is used to punish them and sometimes this seems to happen even when they do a good job. They feel that when they do the job with less funds, then their budget is cut the next year, while those who maybe exceeded their budget are awarded with more funds. This complaint ignores the fact that top management and budget analyst are capable of detecting phony budgets. People who consistently go over their budget without good reason are always in trouble with top management. Many managers feel the

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[59]Hindman, "Responsibility Budgeting," p. 14.

budget is a strong indicator that top management does not trust them to run their operations as they should be run. They argue that even after the budget is approved, they still have to get later approval again on big purchases. These managers need to understand that they are not working in a vacuum and their department is just one of many. One purpose of the budget is to keep all departments in balance in relation to each other. It is also a communication device that helps fuse all the diverse operations into one integrated plan.[60]

The previous several paragraphs have dealt with the primary areas that must be resolved in order to prepare an organization for any form of budgeting. In summary, these are: (1) Human relations problems normally causing opposition to budgets must be overcome. Employee participation in the real sense is the basic practice that can lead to solving these problems. (2) Managers must be sold on the budget and they must appreciate that the best form of effective planning is budgeting. (3) Managers must ensure that the budget mechanics are so designed as to render fair treatment to all concerned. Once an organization is prepared for

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[60]Bowler and Gleason, "Is Management Sold," p. 3.

the budget process in general, action can then be taken to prepare the group for the peculiarities of zero-based budgeting.

Guidelines for Applying Zero-Based Budgeting

Appendix A contains several excerpts from the Department of Agriculture instructions for preparing the 1964 budget estimates. The excerpts selected are those which pertain to the use of zero-based budgeting. These instructions were prepared by the Office of Budget and Finance, of the Department of Agriculture, and serve as a useful reference point for discussing appropriate guidelines for the application of zero-based budgeting.

In approaching the peculiarities of zero-based budgeting, it can be best accomplished by looking at those items that are aimed at two different groups of people who are: those who will be using zero-based budgeting to prepare estimates for budgets; and, those who will be reviewing and analyzing the estimates that are submitted. For each group, there are identical and there are different items of preparation that must be accomplished. The identical items will be covered first.

Both groups will need to fully grasp the concept of zero-based budgeting. When the Department of Agriculture

applied zero-based budgeting, in 1964, they found that all agencies had serious difficulty in conceptualizing circumstances in which there were no previous mandates, no past commitments, no consideration of items to be included because other participants in the budgetary process would demand it, no programs for which support could not conceivably be expected: in a word, no history of learning based on history.[61]

In spite of the difficulty that will be encountered in getting all concerned to grasp the concepts of zero-based budgeting, it is absolutely essential that this be accomplished before further preparations can be made. In that the primary purpose of zero-based budgeting is to avoid the traditional incremental approach, it might be very helpful to present the deficiencies of that method to all personnel to appreciate the concepts of zero-based budgeting.

Whenever people use the incremental budgeting approach, they drastically simplify their task by concentrating on the relatively small portion of the budget that is feasible to change. The previous year's budget, the largest part of which is composed of continuing programs and prior commitments, is usually taken as a

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[61]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 140.

base needing little justification beyond that offered in the past. Attention is normally focused on a small number of incremental changes, increases and decreases, calling for significant departures from the established historical base. Parts of the total budget are given to various groups for special attention. This fragmentation is increased because all budgetary items are not evaluated together, but are dealt with in sequence by the various participants, so that only a small number of items need be considered by any participant at any one time. This budget process, which is used in most organizations, therefore, may be described as incremental, fragmented, and sequential.[62]

The traditional incremental approach to budgeting is the most widely used form of budgeting at this time. This is in spite of the fact that a large part of the literature on budgeting in the United States has been devoted to a critique of this process. Failure to consider the budget as a whole, each item competing for funds with the others, has been characterized as irrational. Although many statements could be cited to show how long and consistently these views have been held, only a few illustrations will be presented here.

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[62] Ibid., p. 141.

Writing in 1934, A. E. Buck asserted:

> It must be a temptation to one drawing up an estimate to save himself trouble by taking last year's estimate for granted, adding something to any item for which an increased expenditure is foreseen. Nothing could be easier, or more wasteful and extravagant. It is in that way obsolete expenditure is enabled to make its appearance year after year, long after reason for it has ceased to be.[63]

This often-repeated theme was echoed, in 1941, by Benton Biser:

> Appropriations are generally built upon the basis of the preceeding year's expenditure, plus or minus any known items of increase or decrease, without considering whether or not the past year's experience is the result of efficient and economical administration.[64]

In 1955, Arthur Smithies was even more positive:

> In general, final expenditure decisions should not be made until all claims on the budget can be considered.[65]

Maurice Stans, who was budget director, under President Eisenhower, stated:

> Every item in a budget ought to be on trial for its life each year and matched against all the other claimants for out resources.[66]

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[63]A. E. Buck, The Budgets in Government Today, (New York: Macmillan, 1934), p. 172.

[64]Benton Biser, "Some Shortcoming of Present Budgetary Practice," Toward Better Budgeting, (Detroit: Government Research Association, 1941), p. 6.

[65]Smithies, Budgetary Process, p. 207.

[66]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 141.

Finally, in 1969, Arthur F. Burns, former economic advisor to President Nixon, and now chairman of the Federal Reserve Board, stated:

> Customarily, the officials in charge of an established program have to justify only the increase which they seek above last year's appropriation. In other words, what they are already spending is usually accepted as necessary, without examination. Substantial savings could undoubtedly be realized if both the Budget Bureau examiners and the Congressional appropriation committee required every agency to make a case for its entire request each year, just as if its program of programs were entirely new.[67]

If the personnel of an organization can understand the deficiencies of incremental budgeting that have been cited above, then they can begin to comprehend the most opposite form which is the zero-based concept. The concept of comprehensiveness should be stressed as the central theme of zero-based budgeting. Zero-based budgeting can be explained as a way of evaluating needs and priorities more systematically and comprehensively than usual. It means that all programs should be reviewed from the ground up and not merely in terms of changes proposed for the budget year. Zero-based budgeting means that the total work program of the organization must be subjected to an intensive review

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[67]Arthur F. Burns, "The Control of Government Expenditures," Tax Foundation Tax Review, Vo. XXXI, No. 1, January, 1970, p. 5.

and evaluation. In computing estimates under zero-based budgeting, personnel will have to consider the basic need for the work contemplated, the level at which the work should be carried out, the benefits to be received and the cost to be incurred. Under zero-based budgeting, the fact that certain activities have been carried out for a number of years will not, by itself, justify their continuation. The justifications, under the zero-based budgeting concept, should be prepared on the assumption that all information needed for making budget decisions should be included.

It is not enough that the above descriptions of zero-based budgeting be placed in written instructions for compliance. A review of Appendix A reveals that this type of instruction would not stand alone. It will require much more. More intensive methods such as lectures, conferences, seminars, etc., must be held if this concept is to be fully absorbed by all personnel. Each session must be ample, filled with examples that personnel can relate to their actual work. Ample time should also be provided for questions, answers, and discussion.

The personnel who are being asked to use zero-based budgeting to make or review budget calculations may

well say that the process is entirely too time consuming, especially if it is to be done every year. It should be pointed out early in the introduction of zero-based budgeting that there is no intention to apply the complete process to all programs each and every year. Depending on the size and scope of the organization, a decision can be made as to how often to apply the process, which may vary from three to five years. To a great extent, top management benefits as much as anyone from zero-based budgeting and, therefore, it could be argued that it should only be used when changes are made in the personnel of top management. The Department of Agriculture came to the conclusion that the zero-based method might be useful every five years for a reference document and more recent base for future calculations. It is interesting to note that this tends to assimilate the data in the more familar incremental method.[68]

In many organizations it may be impossible to apply zero-based budgeting to all estimates in any one single year. Where this is true, it will be necessary to apply zero-based budgeting to different parts of the organization each year until all parts are covered. Attention should focus on those activities that do not

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[68]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 156.

change each year as under the traditional incremental method they have probably escaped periodic evaluation. It would also be helpful if the zero-based reviews could be freed from the peak periods of the formal budget cycle. The absence of immediate deadlines may encourage increased speculation and experimentation. Also, there is the increased probability that top and middle management will have more time to listen to results of the reviews and efforts may lead to more tangible action.

There are certain reactions that can be expected from the group of people who will be actually making the estimates and preparing the budget under zero-based budgeting. A little later, in this Chapter, actions that affect the personnel who review and approve the budgets will be discussed. One typical reaction is that personnel may argue that the incremental approach cannot be avoided in all instances. Many people will say that you have to start from where you are. Two main points may be advanced in support of this proposition. First, they know most about their present status and can make some reasonable estimate of the effect of more or less money for particular programs. But they could not predict what drastic changes, such as eliminating their programs, or cutting them in half, or doubling them, would

mean. The second argument will probably be that the whole procedure is unreal. They will ask why such a great effort for a procedure which nobody with experience believes will lead to any significant results. They will say that everybody knows that certain programs are mandatory, others could not be modified and still others had to be supported at approximately their current level.

These arguments are not easy to answer, however, with patience and reasoning they can be successfully refuted. In addition to emphasizing the defects of incremental budgets and the strong points of zero-based budgeting, an appeal should be made to the desire to do a better job. Zero-based budgeting should be looked upon as a device to encourage people to give deeper and broader consideration to operations and this should lead to a better understanding of what is going on. This, hopefully, in turn will uncover improvements that can be made in the programs. Another point can be made with personnel by explaining that the zero-based budgeting process can have therapeutic values. Most people understand how easy it is to get in the habit of doing things in the same manner time after time. Starting out with the idea that nothing is sacred, as you do in zero-based

budgeting, should prove to be exciting and challenging for the personnel involved.[69]

In spite of what has been said so far, personnel may still have a problem in following the guidelines set forth by zero-based budgeting. This could be true even though they fully accept the concept of zero-based budgeting and are making an honest effort to make it work. An explanation of how work load statistics can be used should be pointed out to these personnel. The Department of Agriculture found that those agencies whose activities or experience lent themselves easily to work-load data were able to more easily adapt to zero-based budgeting than those without any means to use work-load measuring units. It was found that an agency with well developed and previously accepted work-load measures could meet the requirement that expenditures be justified from "the ground up" by attaching an explanation to tables of work-load statistics, supporting the expenditures. One agency said that the zero-based approach made no difference, because to meet rapidly changing conditions, their budget was already being prepared zero-based budgeting style.[70]

On the other hand, the Department of Agriculture

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[69] Ibid., p. 150. [70] Ibid., p. 146.

found that those agencies which did not or could not use work-load data experienced much more difficulty in applying zero-based budgeting in the calculation of their expected level of expenditures. These agencies, which were unable to talk in terms of so many applications processed, operations performed, or similar measures, had to find a substitute. In some cases, an explanation of the problem was made, and the proposed levels of expenditure were justified by projecting the rate of growth of the previous few years into the future. A few agencies tried to develop new ways of dividing up their activities and breaking cost down differently than before. Although these agencies tended to be over-burdened with having to do this extra work, they manage to submit estimates and justification which was as much as ten times longer than previous ones.[71]

The personnel who will be reviewing the budget estimates calculated under the zero-based budgeting concept will face some special problems. These problems will range from the initial preparation of instructions for using zero-based budgeting, to the review of unusually large volumes of data that will surely be submitted, to developing methods for comparing the various programs

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[71] Ibid., p. 145.

between the different parts of the organization.

The preparation of instructions on how to use the zero-based budgeting concept in making budget calculations is probably the key written matter for eventual successful application. In the Department of Agriculture, the Office of Budget and Finance performed this task. In April, 1962, that office issued the instructions for preparing the 1964, agency estimates for the Department of Agriculture. Excerpts from that instruction are contained in Appendix A. A review of these excerpts seem to indicate that the guidance provided for such a radical change in budgeting concept was too brief to be fully effective. It must, however, be remembered that this instruction was developed eight years ago, at a time when little or no precedence was available. In addition, there was very little guidance from higher authority.

Mr. Charles A. Jewell, Chief, Division of Budget Policies and Operations Office of Budget and Finance, Department of Agriculture, comments that when the decision was made to do a zero-based budget, a quick survey of the literature revealed that although much had been written criticizing the traditional methods of budgeting and advocating a comprehensive approach, there was little written about zero-based

budgeting. The lack of precedence and written material, plus a short deadline for implementation, led to the brief nature of the instruction finally issued.[72] Nevertheless, these instructions provide an excellent basis on which to develop broader and more complete guidance for the application of zero-based budgeting. In addition, to expanding the guidance contained in Appendix A, it is absolutely essential that specific related examples from each area of operations be provided to further close the gap of understanding.

After the budget staff personnel have issued the written instructions for applying zero-based budgeting, the next major milestone will be the receipt of the estimates and supporting data. The sheer volume and the time available for review will be a first order problem. The Department of Agriculture certainly found this to be the case. One official commented to the effect that:

> We knew we were getting into something horrendous, and it was obvious, in advance, that it would be impossible for all of us to analyze the material at all stages. The range of decision - the number of decisions to be made - increased almost infinitely. Although individual steps of the process, at the department level the same as

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[72]Personal Interview with Charles A. Jewell, Chief, Division of Budget Policies and Operations, Office of Budget and Finance, U. S. Department of Agriculture, February 6, 1970.

> always, this made such a quantitative difference as to amount to a qualitative one.[73]

The Department of Agriculture found that the material submitted by the agencies was too bulky for higher officials to review, and the general consensus was that there was too much material in the zero-based budget to be effectively used.

An answer to handling the volume of material, under zero-based budgeting, may be in several areas. First, as mentioned earlier, it may be more appropriate, and just as effective, to apply zero-based budgeting to different parts of the organization each year until all parts are covered. Also, the application could be scheduled for a time other than the formal budget time table. Both of these actions would certainly enable the staff to conduct reviews of greater scope and depth. In addition to scheduling actions, an effort should be made to utilized data processing services for the initial computations, verifications, sorting, and assembly of data. Due to lack of time, the Department of Agriculture was not able to use data processing at any stage. It was admitted that with ample time for planning and programming, data processing could be used to great

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[73]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 148.

advantage in reviewing the calculations made under zero-based budgeting. The supporting data for the calculations would not normally be susceptible to the services of data processing.[74]

The crucial question, of comparing the relative desirabilities of various programs based on the estimates and justification submitted under zero-based budgeting, is the most formidable task facing the staff. The problem of choosing one program over another program is one of the oldest challenges encountered in the budgeting process. Over three decades ago, V. O. Key called attention to the lack of a budgetary theory which would assist in arriving at an answer to this question. Pointing out that budgeting is essentially a form of applied economics, since it requires the allocation of scarce resources among competing demands, Professor Key urged that this question be explored from the point of view of economic theory.[75]

Nothing approaching a comparison of every program with every other (or of most programs with each other) was made by the Department of Agriculture. On

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[74]Personal Interview with Hartman Rector, Jr., Program and Budget Analysis Staff, Office of Budget and Finance, U. S. Department of Agriculture, January 28, 1970.

[75]V. O. Key, Jr., "The Lack of a Budgetary Theory," American Political Science Review, December, 1940, p. 34.

the contrary, the majority of comparisons made by officials concerned programs and activities within individual agencies.[76] An official explained:

> Questions of a department hearings were in the same categories as usual - Why this program? Why this level? What would alternatives cost? - but, in more detail. In analysis, we did not consider why sixty-five rather than sixty-four or sixty-six man-years for Project X, but why three times as much for Project X as Project Y?[77]

Only in a few cases involving closely related programs in different agencies were comparisons made across agency lines.[78]

In spite of the experience in the Department of Agriculture, one high level official still believes that better comparisons and evaluations could be made in the future. Time was a factor as discussed above. The key, however, to making effective comparisons, would be the advanced "labeling" and "segregating" of programs into similar, or nearly similar, categories. This action would require an intensive and deliberate effort, concluded by decisions on a high level, but once done, it would provide a framework for conducting comparisons

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[76]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 146.

[77]Interview with Hartman Rector, Jr.

[78]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting, p. 147.

that would be meaningful.[79] This process would help to ensure that budget decisions are made on the basis of relative values; because, there are no absolute standards of value to use in the budget process. It is not enough to say that an expenditure for a particular purpose will be desirable or worth while. The results must be worth the cost in terms of the value that would be received if the money was used for another purpose.

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[79]Personal Interview with Charles L. Grant, Director, Office of Budget and Finance, U. S. Department of Agriculture, February 13, 1970.

CHAPTER V

CONTRIBUTIONS TOWARD MANAGEMENT RENEWAL

As stated earlier, the intent of this study is not to investigate the effectiveness of zero-based budgeting as a budgeting tool or procedure, but rather, is to analyze the results that the process has on achieving management renewal in an organization. In attempting to determine the benefits toward management renewal that can be expected from zero-based budgeting, three sources of findings are used. A research of the written material available in the subject area is the primary source from which deductions are made as to the benefits to be derived. Second, a series of three interviews, with Department of Agriculture officials, were made in an effort to obtain opinions as to these benefits from persons who had experience with the use of zero-based budgeting. Finally, two interviews were conducted with Navy Officers, in high management positions, to obtain their feelings in the same areas. This final source of findings is believed to be particulary weak, in that time did not allow for the Navy managers to become adequately acquainted with the concepts and

application of zero-based budgeting. Nevertheless, in this light, they are included in the study.

Self-Examination

As established in Chapter II, the first condition in achieving management renewal is the continuous review and self-examination within an organization. This condition requires that top management show the way by openly discussing its own decisions, admitting to past failures, and acknowledging weaknesses they possess themselves and must be overcome. When zero-based budgeting was used at the Department of Agriculture, Secretary Freeman showed a strong interest in the process. He believed that zero-based budgeting was worth while and would cause a more thorough examination of programs at all levels. He pushed the use of zero-based budgeting, knowing that it might turn up mistakes made in the past by top management. Wildavsky and Hammann found evidence to support the belief that Secretary Freemans actions resulted in such an examination. In the interviews that they conducted, officials frequently commented to the effect: "The Secretary pushed this" or "The Secretary's interest was the moving force."[80] In this area, one official commented:

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[80]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 143.

> The zero-based budget was enlightening to officials who reviewed it: things were turned up that had never been looked at before, and it gave us a much better picture of what we were doing.[81]

Another official saw zero-based budgeting as a method for making people give a deeper and broader consideration to all their operations. He believed the zero-based budget was a device where nothing being sacred, many actions of habit would be examined for the first time.[82] When this matter was discussed with a Navy manager, he was uncertain as to the extent this benefit would result. He added:

> Assuming the process, as you describe it, is properly applied, this benefit is likely to occur.[83]

Another Navy manager could not visualize that zero-based budgeting would produce any significant results in this area.[84] According to all the sources that were researched, the use of zero-based budgeting would contribute toward a condition of self-examination within an organization. The extent of this condition that would result, could not be established in any definite manner.

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[81]Interview with Charles A. Jewell.

[82]Interview with Charles L. Grant.

[83]Personal Interview with Commander C. W. Rixey, SC, USN, Former Director, Naval Supply Depot, DaNang, Republic of Vietnam, February 16, 1970.

[84]Interview with an anonymous Navy manager.

Communication and Coordination

To achieve management renewal, positive and fluid communications and coordination must come to exist in an organization. This includes formal and informal group participation in the management of the organization. Budgets have a great potential for generating coordination and cooperation in an organization.[85] Zero-based budgeting especially has this potentiality, because it requires wider and deeper participation by all levels of the organization. The process creates a better knowledge channel up, down, and across the activity. In the Department of Agriculture, personnel at one level ended up being better prepared to discuss program operations with their superiors and personnel in other parts of the organization.[86] One official said:

> My staff, who prepared material for me, had clearer presentations than in other years and this helped to improve communications for me with my superiors and counterparts in other agencies.[87]

Another official stated:

> The zero-based budget helped to improve

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[85]Meyer, "Cooperation and Coordination," p. 17.

[86]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 144.

[87]Interview with Charles L. Grant.

> communications in the whole organization. Many people for the first time were forced to talk to each other in order to determine the data for calculations and justification. I am not certain, but, I am hoping these new contacts will be used to solve other problems.[88]

One writer, in the field of budgeting, feels that a budget system, once it is installed and working properly, will improve communication and coordination tremendously, because it gives a better perspective to all concerned and all levels of management become more knowledgeable and better informed.[89] Both Navy managers interviewed were reluctant to be specific in this area. One commented:

> I am convinced that budgets, in general, when properly used, serve as good communication devices, but, it is hard to say how much more or less zero-based budgeting would do.[90]

The other Navy manager was less optimistic about budgets in general contributing significantly to communications throughout the organization. He saw the effect as being limited to certain people in the organization.[91] The sources researched tend to indicate that zero-based budgeting would contribute to some moderate degree

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[88]Interview with Charles A. Jewell.

[89]Benedict, "Expanding the Understanding," p. 4.

[90]Interview with Commander Rixey.

[91]Interview with anonymous Navy manager.

toward improving communications and coordination, but, the precise degree could not be established.

Problem-Solving

The third condition necessary to achieve management renewal is that sound problem-solving techniques must be in operation in the organization. As mentioned in Chapter II, the primary focus for a decision-making system should be on finding the right question and then the right answer. One of the prerequisites of a decision-making system is the development of information on which to base evaluation and decisions. Zero-based budgeting at the Department of Agriculture contributed to this purpose. As discussed earlier, the volume of data produced resulted in one of the main problems for those responsible for review and evaluation. One official, who was interviewed, commented:

> I think everyone came out of this process with a great deal more information than they had ever had before. I went through all of the material, spent more time on budgeting than before and learned more about the scope of operations.[92]

In line with developing more information, zero-based budgeting contributed toward a comprehensive approach to problems which is necessary on any decision-making

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[92]Interview with Charles A. Jewell.

process. Wildavsky and Hammann found that while many Department of Agriculture officials knew what programs were being undertaken, they had not realized the full extent of operations until they had been through the zero-based budgeting procedure.[93] Clarence C. Benedict believes that a budget system, once properly designed, installed, understood, used and maintained, will discipline all levels of management to constantly make decisions and plans well in advance, in an orderly, organized and unrushed manner. He also believes that it increases managements opportunity to test more ideas and alternatives well before final decision and action are required.[94] The first Navy manager interviewed felt strongly that a good budget system served a vital role in the problem-solving process of an organization. He related this to the fact that costs and funds limitations are significant factors in almost all major decisions made in a government activity. He said that:

> . . . without good solid data and in depth analysis, serious errors in judgment could be made by top management.[95]

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[93]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 145.

[94]Benedict, "Expanding the Understanding," p. 4.

[95]Interview with Commander Rixey.

He agreed that the concept of zero-based budgeting would go farther in this direction than the current traditional methods used. The second Navy manager interviewed, stated that most decisions, especially in government organizations, could not be properly made unless a good budget system is in operation. He believed that most decisions involved planning in one form or the other, and that budgeting was in effect a highly developed form of planning. He added that zero-based budgeting would help to obtain better planning.[96] All sources that were researched, supported each other in indicating that zero-based budgeting would contribute significantly to the effectiveness of the problem-solving apparatus of an organization.

Motivation

The final condition, for management renewal, is the maintenance of a working climate that motivates employees and obtains their commitment to the goals of the organization. This condition is by far the most elusive to describe and more to ascertain when it exists in an organization. Nevertheless, it is an essential

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[96]Interview with anonymous Navy manager.

condition that must be sought and obtained if an organization is to reach its full potential. The significant unexpected benefits of zero-based budgeting, at the Department of Agriculture, were in this area. A large part of the benefits, it appeared, came from the well-known Hawthorne effect in which the content of the experiment is less important than the fact that the sense of importance of those engaged in the experiment is enhanced. Department of Agriculture budget people discovered that their function was rated more highly as all concerned became involved in zero-based budgeting. As personnel worked on budget justifications, they seemed to like the feeling of being more involved in their activities.[97] One official explained:

> The zero-based budget was good because it tended to confirm what you had a notion of otherwise. It makes people more confident in themselves when they can satisfy themselves that they are doing a good job.[98]

Another official stated:

> Considering everything from the ground up at the same time is, well, the right way to do things, and not just let things grow like crazy.[99]

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[97]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 143.

[98]Interview with Charles L. Grant.

[99]Interview with Hartman Rector, Jr.

Wildavsky and Hammann concluded that for many who were involved with zero-based budgeting, the experience appeared to have satisfied a longing to believe that they were proceeding according to the canons of rational methods of calculation. It appeared to them that the making up of a proper and thorough budget was a real morale booster for many of those involved.[100] Both Navy managers could not be specific, in their comments, as to the effect that zero-based budgeting might have on motivation in an organization. One felt that the effect would be largely determined by the operational results of the procedure. In other words, if the application resulted in definite savings and more efficient operations, this would tend to lift morale; while, if the use ended up with no changes, it might result in demoralizing those involved.[101] The other Navy manager felt that either way that motivation was effected that it would be limited to only a small number of people in the organization.[102] In spite of the opinions of the two Navy managers, who were at a serious disadvantage in never having witnessed or experienced zero-based

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[100]Wildavsky and Hammann, "Comprehensive Versus Incremental Budgeting," p. 144.

[101]Interview with Commander Rixey.

[102]Interview with anonymous Navy manager.

budgeting, the finding from the other two sources provide evidence that zero-based budgeting can result in the positive motivation of people toward the goals of an organization.

The one theme, that unites the above conditions for management renewal, is that they all involve change. The final question is: How much can zero-based budgeting help an organization to: first, confront situations and search for solutions; and second, cope with the facts and circumstances in implementing solutions? This is a highly abstract question and was not covered specifically in any of the written material. During the interviews, it proved impossible to obtain any meaningful opinions in this area. In view of this, only general deductions can be made from the overall thesis research. Certainly, zero-based budgeting can be classified as change with significant size which, if successfully handled through an organization, should prepare that organization to handle future changes. Zero-based budgeting requires openness and "soul-searching" which can, in the long run, serve to assist a group in meeting new situations. The use of zero-based budgeting, in the first place, will require professional courage, which, if generated in that organization, can only strengthen that organization's ability to confront situations and implement the hard

solutions. In summary, if an organization can successfully confront zero-based budgeting, and solve the problems that it uncovers, the organization will be left with much stronger management to meet future challenges.

CHAPTER VI

CONCLUSION

This thesis set out to determine what benefits could the use of zero-based budgeting contribute toward management renewal. In seeking to answer this basic research question, the following subsidiary questions have also been studied:

1. What is the meaning of management renewal?
2. What is the basic concept of zero-based budgeting?
3. How should zero-based budgeting be applied?
4. What elements of management renewal can be accomplished through zero-based budgeting?

In establishing the meaning of management renewal, it was first necessary to identify the term management and the word renewal. The definition of management was arrived at by analyzing various viewpoints: management as a broad scheme of handling any of the affairs of man; management as a tool to primarily achieve economic goals; management as a technical process for getting jobs done; and, management as a special relationship between people committed toward a common

objective. The meaning of management was found to include all these viewpoints. Management was defined as a field unlimited in scope, but, based on economic principles that must be put into a technical formal process for execution by people who are committed to the objectives to be accomplished. The word renewal was described as the regaining of a condition of vigor and alertness. The meaning of management renewal was determined by combining the definitions of management and renewal and adding the new factors which are created by the union. Several elements of management renewal were established. These were conditions of self-examination, communication, problem-solving and motivation. Management renewal was concluded to have a central theme of change, and therefore, meant the manner in which an organization, first confronts situations and searches for answers, and second, copes with the facts and circumstances in implementing solutions.

The basic concept of zero-based budgeting was established primarily by investigating its use by the Department of Agriculture, in 1964. The concept is concerned, in the main, with the manner in which calculations or estimates for budgets are determined. Its major objectives are to examine all programs from

the ground up and to uncover expenditures continuing through inertia or design, that no longer warrant being continued. Zero-based budgeting attempts to develop all information about all programs in one place at one time for high level review. In pursuing these objectives, it diligently seeks to avoid the increase-decrease analysis of the traditional incremental approach where the vast majority of expenditures are passed without investigation or review, and therefore, to make the budget process more comprehensive in nature and practice. The primary contribution of zero-based budgeting is the principle of comprehensiveness in approaching the challenges of budgeting and management.

The application of zero-based budgeting requires considerable advanced preparation to ensure the full effect and success of the procedure. In that zero-based budgeting is a drastic departure from other forms of budgeting, it is classified as a major change when introduced into an organization. In view of this, it was determined that basic actions to reduce resistance to major change of any nature would be necessary as a part of the program of applying zero-based budgeting. The actions proposed included: use of two-way communications to clear the air of misunderstandings; the practice of

group decision-making to achieve employee commitment; making changes temporary whenever possible; ensuring only essential changes are made; and, careful consideration of the effects on group norms and habits. In addition to the standard actions designed to reduce change of any nature, there are other actions peculiar to budget systems in general. It was established that budget systems are much more human than most people suspect, mainly because they affect almost all individuals in an organization and, in practice, they apply pressure which is unpopular. Employee participation was deemed to be especially important in the successful implementation of a budget system. There are also certain middle management objections that many times must be overcome. These included: resistance to long-range planning; and, the general feeling that budgets are arbitrary and unfair. Some specific guidelines were formulated for the final installation of a zero-based budgeting system. These were largely based on instructions issued by the Department of Agriculture. It was felt essential that the deficiencies of the traditional incremental method of budgeting be pointed out to all concerned as a prelude to explaining the basic concepts of zero-based budgeting. The problems that the Department of Agriculture encountered were analyzed and solutions

proposed to alleviate similar situations when using zero-based budgeting in the future. The development of sound written instructions and ways in which large volumes of data could be handled were discussed.

This thesis concluded that zero-based budgeting, if properly introduced and maintained in an organization, can contribute toward the conditions necessary for management renewal. All sources researched indicated that zero-based budgeting would start an organization in the direction of self-examination, but, the full extent and duration of the self-examination could not be firmly established. The written material and interviews with persons who have had experience with zero-based budgeting indicated that communication and coordination would be improved. The Navy managers were less specific. All sources indicated that zero-based budgeting would significantly improve the decision-making system of an organization. The written material and Department of Agriculture personnel provided comments that zero-based budgeting, if properly introduced and used, could result in the positive motivation of employees. The Navy managers could not be specific in this area.

In that the conditions of management renewal all involve the handling of change, it was concluded that

if an organization can successfully introduce and use zero-based budgeting, and solve the problems that are uncovered, then the organization will develop much stronger management to meet future challenges. The phrase, "if properly introduced and used" seems to qualify many of the conclusions of this thesis, and in the final analysis, may be the most important point revealed. In other words, the manner in which any action is introduced and managed in an organization, is many times more important than the content of the action.

APPENDIX A

INSTRUCTIONS FOR 1964 AGENCY ESTIMATES

Basis for 1964 Agency Estimates

A new concept has been adopted for the 1964 agency estimates; namely, that of "zero-base" budgeting. This means that all programs will be reviewed from the ground up and not merely in terms of changes proposed for the budget year.

This approach requires a tough-minded, objective, and realistic appraisal of the Department's work. What is it? What should it be? What is the minimum financing required?

This pamphlet contains the necessary instructions to do this job. This is a pioneering approach to budget development and review in the Department. It will not be an easy job. To do it successfully will require the best efforts of everyone involved in this undertaking.

Policies, Assumptions, and Guidelines

The 1964 Agency Estimates should reflect known policies of the President relating to specific activities of the Department of Agriculture as stated in his messages to Congress and other documents. Where applicable, estimates based on pending or proposed legislation should be separately identified in accordance with the instructions in section 2.

The total work program of each Agency must be subjected to an intensive review and evaluation in the preparation of the 1964 estimates. Consideration must be given to the basic need for the work contemplated, the level at which needed work should be carried out, the benefits to be received, and the costs to be incurred.

The document Food and Agriculture: A Program for the 1960's sets forth certain economic assumptions and policies which should be used, in those program areas where applicable, in developing the estimates. Where essential for the development of these estimates, more detailed assumptions such as population projections, agricultural productivity rates, levels of domestic and foreign marketings, number and size of farms, etc., should be obtained from, or verified by, the Economic Research Service.

The fact that certain activities have been carried out for a number of years will not, per se, adequately justify their continuation. Nor will the fact that programs are prescribed by statutory law of long standing necessarily be a controlling consideration. Program goals based on statutes enacted to meet problems or needs that are today of lesser priority must be re-evaluated in terms of present conditions. Where appropriate, estimates should reflect the termination or phasing-out of such work, based on proposed legislation to modify or repeal the statutory basis if necessary.

Once a determination of current need has been made, the appropriate scope and level of the activity must be identified. Recognition should be given to the relative priorities of all phases of the work program, relative costs and benefits of alternative levels of effort, and the probable availability of resources. One of the Department's objectives will be to reduce overall net expenditures for the Department of Agriculture in 1964 and subsequent years below presently estimated levels for 1962 and 1963.

Proposed work programs should be priced out on the basis of an absolute minimum funds required to finance the anticipated level of work. The need for funds should reflect identifiable savings from management improvement projects and be computed on the assumption that employee productivity will continue to increase at rates experienced in recent years.

Where applicable, the following specific guidelines will be followed in developing the 1964 estimates:

Price and salary levels. Assume that the current general level of prices for things the government buys will, on the average, remain the same through fiscal year 1964 and subsequent years as in the current year. Estimates should be computed on the basis of the existing salary structure and currently prevailing wage rates.

Detailed Estimates and Justifications for 1964

This section covers instructions for preparing the detailed estimates and justifications for proposed agency work programs for 1964.

Material should follow generally the format illustrated in Exhibit 2. Representatives of the Office of Budget and Finance will confer with each agency concerning the specific detail to be shown in listing the items under each appropriation and subappropriation, as well as any other specific detail desired. Unless advised otherwise, agencies should use on Exhibit 2 the breakdown included in the project statement in the 1963 Explanatory Notes.

The submission should take up separately each appropriation or subappropriation for activities under existing legislation. Estimates related to proposed legislation, if any, should be presented separately immediately following the entire submission for existing legislation. Estimates related to proposed legislation should follow the same general format as those under existing legislation.

The obligations shown on Exhibit 2 should be broken down between (1) program operations and (2) program support activities, including administrative support as defined in 6 AR 393. Program support activities should include all obligations other than those applied directly to the program. The nature of the activities included in the program support catagory (other than those for administrative support as defined in 6 AR 393) should be indicated on Exhibit 2 by footnote.

In the development of the justification, due consideration should be given to the policies and guidelines stated earlier in these instructions.

It is implicit in the zero-based budget approach that the need for programs and their recommended magnitude in the fiscal year 1964 be clearly and specifically demonstrated. The objective in the justifications should be to set forth as clearly as possible the facts which warrant favorable consideration of the program in terms of its importance to Agriculture and the economy in general. The justifications should be prepared on the assumption that all information needed for making budget decisions should be included.

Written justifications of the 1964 estimates will generally be most useful and informative if organized and presented under the following headings:

Nature of the Work

The first paragraph of the written justification should consist of a brief description of the nature of the work program.

Need for the Work

This should include a concise statement on the assumptions, policies, and basic considerations that led to the agency determination that the work should be performed in 1964. The objectives to be achieved, the benefits to be derived, and the recipients of the benefits should be stated. The relationship of the objectives of the work proposed to the objectives of the Department's Program for the 1960's, or other known policies, should be identified, where applicable.

Level of Work

This should discuss the specific level of work proposed for the year. Where appropriate and possible, work measurement techniques should be used, work-load assumptions should be specified, production rates should be disclosed, and other quantitative data used. Where the proposed level of work is based on assumptions with respect to standards of quality, such assumptions should be stated. Where the work proposed cannot be completed within the fiscal year at the level at the level recommended, the justification should identify the length of time that is assumed to be required to achieve the objectives. Programs that are expected to continue indefinitely, such as inspection and regulatory work, should be so identified.

Where the proposal involves construction of research or other major facilities, the justification should indicate:

1. The size and type of construction contemplated
2. The proposed location of the facility
3. Whether or not Federally owned land is available and if not, the plans for acquisition of the necessary land
4. The present status of development of design criteria or architectural plans

5. The estimated date of completion of construction
6. The work that will be carried out in the facility, and why the work is needed
7. The staffing level required when construction is completed
8. Where applicable, the personnel and funds that will be transferred to the new facility when completed, and the additional appropriations that would be needed to operate the facility and the fiscal years in which they would be needed

Where possible the requirements for program support activities related to the work program involved should be justified. Where program support expenses have been distrivuted to the work program on a pro rata basis related to workload factors other than those involved in the specific work being justified, the specific basis used for such distribution should be stated and the total program support requirements justified separately as part of the statement required in Section 3.

SOURCE: U. S. Department of Agriculture, Instructions for 1964 Agency Estimates, Office of Budget and Finance, April, 1962.

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